Staff paper

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SME Implementation Group meeting

Date	**July 2023**
Project	**Second Comprehensive Review of the *IFRS for SMEs*® Accounting Standard**
Topic	**Feedback from comment letters on Exposure Draft—Proposed amendments to the *IFRS for SMEs* Accounting Standard**
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Purpose of this paper

1. In September 2022, the International Accounting Standards Board (IASB) published the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (the Exposure Draft). The Exposure Draft was open for comment for 180 days, closing for comment on 7 March 2023. This paper summarises the feedback from comment letters on questions 1–11 and 15 of the Invitation to Comment (ITC) in the Exposure Draft, which ask about the proposed amendments to the *IFRS for SMEs* Accounting Standard (the Standard).

2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard.

Structure of the paper

3. The feedback in this paper is structured as follows:

   (a) overall feedback on the proposed amendments to the *IFRS for SMEs* Accounting Standard (paragraphs 5–6);

   (b) proposed clarification to the definition of public accountability, Question 1 of the ITC (paragraphs 7–9);

   (c) proposed revised Section 2 *Concepts and Pervasive Principles*, Question 2 of the ITC (paragraphs 10–16);

   (d) proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*, Question 3 of the ITC (paragraphs 17–21);

   (e) proposed amendments to impairment of financial assets in Section 11 *Basic Financial Instruments* (to be renamed *Financial Instruments*), Question 4 of the ITC (paragraphs 22–27);

   (f) proposed new Section 12 *Fair Value Measurement*, Question 5 of the ITC (paragraphs 28–34);

   (g) proposed amendments to Section 15 *Investments in Joint Ventures* (to be renamed *Joint Arrangements*), Question 6 of the ITC (paragraphs 35–45);

   (h) proposed amendments to Section 19 *Business Combinations and Goodwill*, Question 7 of the ITC (paragraphs 46–53);

   (i) proposed revised Section 23 *Revenue* (to be renamed *Revenue from Contracts with Customers*), Question 8 of the ITC (paragraphs 54–66);

   (j) proposed amendments to Section 28 *Employee Benefits*, Question 9 of the ITC (paragraphs 67–74);

   (k) proposed transition requirements, Question 10 of the ITC (paragraphs 75– 79);

   (l) other proposed amendments, Question 11 of the ITC (paragraph 80); and

   (m) updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard, Question 15 of the ITC (paragraphs 81– 85).

4. The questions asked in the ITC are reproduced in grey boxes.

Overall feedback on the proposed amendments to the *IFRS for SMEs* Accounting Standard

5. The IASB received 70 comment letters. The Appendix to this paper provides an analysis of respondents by geographical distribution and type, and lists the number of respondents that commented on questions 1–11 and 15 of the ITC in the Exposure Draft.

6. Respondents generally provided overall support for the proposed amendments in the Exposure Draft except:

   (a) there was mixed feedback on the proposal to clarify the definition of public accountability and many respondents (large minority) expressed concern that the proposed amendments are subjective.

   (b) most respondents disagreed with the proposals for impairment of financial assets measured at amortised cost. Most of these respondents supported retaining the incurred loss model for all financial assets measured at amortised cost.

   (c) many respondents (a small majority) disagreed with the proposal to delete paragraph 28.19, which provides measurement simplifications for defined benefit obligations.

Proposed clarification of the definition of public accountability

7. The IASB proposed to clarify the definition of public accountability in Section 1 *Small and Medium-sized Entities* by:

   (a) listing banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b) of the Standard; and

   (b) clarifying the characteristics of an entity with public accountability.

Question 1(i) of the ITC
Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?

Question 1(ii) of the ITC
Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

8. Feedback on Question 1 was mixed. Approximately half of respondents agreed that the proposed amendments would add clarity without changing the intended scope of the Standard. However, many respondents disagreed or, whilst not commenting directly on Question 1(i), expressed concern that the proposed amendments to paragraphs 1.3 and 1.3A are subjective and could lead to different interpretations of the definition of public accountability, and hence the intended scope of the Standard.

9. See paragraphs 15–25 of Agenda Paper 30D *Definition of Public Accountability* of the June IASB meeting for a detailed analysis of the feedback on Question 1.

Proposed revised Section 2 *Concepts and Pervasive Principles*

10. The IASB proposed to revise Section 2 to align it with the 2018 *Conceptual Framework for Financial Reporting* (the 2018 *Conceptual Framework*).

Question 2(i) of the ITC
Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.

11. Almost all respondents that responded to Question 2(i) supported the proposal to align Section 2 of the Standard with the 2018 *Conceptual Framework*. Approximately half of these respondents expressed support for the revised Section 2 and did not provide any further comments, whereas the other respondents provided comments and suggestions.

12. Respondents provided the following comments or suggestions on revised Section 2:

    (a) *undue cost or effort*—some respondents provided comments on the retention of the undue cost or effort concept. Most of these respondents supported retaining the concept because it keeps the Standard simple and ensures the costs of complying with the requirements do not outweigh the benefits. Contrastingly, a few of these respondents were not supportive of the concept because it causes tension between entities, auditors and national standard-setters due to the judgement involved in applying the concept.

    (b) *length of Section 2*—a few respondents noted that the proposed revised Section 2 is twice the length the existing Section 2 and there are some paragraphs with repeated content. These respondents suggested that the proposed Section 2 be shortened, however only one respondent suggested paragraphs that could be excluded. This respondent suggested that Section 2 is shortened by considering the UK Financial Reporting Council's proposed amendments to Section 2 of FRS 102 *The Financial Reporting Standard applicable in the UK and*

Republic of Ireland, which was developed from the IASB's proposals for the revised Section 2 in the Exposure Draft but is shorter.

(c) *status of Section 2*—a few respondents commented on the status of Section 2. Most of these respondents suggested the IASB reconsiders the inclusion of Section 2 in the *IFRS for SMEs* Accounting Standard. These respondents suggested that Section 2 should be separate from and not part of the Standard, consistent with the 2018 *Conceptual Framework*.

(d) *precedence of other sections*—a few respondents agreed with the proposal in paragraph 2.2 of the Exposure Draft, which states that the requirements in other sections take precedence over Section 2. These respondents said that this principle will enhance consistency in applying the requirements.

(e) *language*—a few respondents provided suggestions to improve the wording in Section 2. A few said that the language used in the revised Section 2 is highly technical and difficult to understand but did not provide specific examples.

Retaining the definition of an asset in Section 18 and of a liability in Section 21

13. The IASB proposed that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*), to avoid unintended consequences arising from revising the definitions of an asset and of a liability.

Question 2(ii) of the ITC

Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 *Framework*)?

14. Most respondents that responded to Question 2(ii) agreed with the proposal for Sections 18 and 21 to continue to use the definition of an asset and a liability from the previous version of Section 2. These respondents agreed because this proposal is consistent with full IFRS Accounting Standards.

15. Many respondents conditionally agreed with the proposal providing the following suggestions:

    (a) *full IFRS consistency*—a few respondents suggested that the definition of an asset and a liability in Sections 18 and 21, respectively, should be updated when the corresponding definitions in IAS 38 *Intangible Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are updated.

    (b) *structure*—a few respondents suggested that the definitions should be given prominence in both Sections 18 and 21. This could be achieved by including the relevant definition of a liability into the body of Section 21 instead of a footnote.

    (c) *clarification*—a few respondents suggested that the IASB clarifies that the recognition and measurement requirements in Sections 18 and 21 are unchanged.

16. Some respondents disagreed with the proposal, providing the following reasons:

    (a) *confusion*—a few respondents explained that having to deal with two separate definitions for assets and liabilities can be confusing for preparers and users of SMEs' financial statements.

    (b) *pervasiveness of Section 2*—a few respondents explained that as the whole Standard is under review, Section 2 should be pervasive and its concepts and principles should be reflected consistently in all sections of the Standard.

    (c) a few respondents suggested the IASB considers extending the use of the definitions of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework) to Section 20 *Leases* of the Exposure Draft. This was suggested because IFRS 16 *Leases* refers to the definition in the 2018

Conceptual Framework and Section 20 has not been aligned with IFRS 16, and therefore requiring SMEs to apply the revised definitions proposed in Section 2 to Section 20 may have unintended consequences.

Proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*

17. The IASB proposed to align the definition of 'control' in Section 9 with IFRS 10 *Consolidated Financial Statements* and introduce a control model as the single basis for consolidation. The IASB also proposed to retain the rebuttable presumption in paragraph 9.5 of the Standard that control exists when an investor owns a majority of the voting rights of an investee.

Question 3 of the ITC

Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

18. Most respondents that provided comments on Question 3 supported the retention of the rebuttable presumption as a simplification of control.

19. Many of the respondents conditionally agreed with the retention of the rebuttable presumption and provided the following suggestions—each made by a few respondents:

    (a) *applicability of the rebuttable presumption*—respondents suggested that paragraph 9.5 of the Exposure Draft is amended to specify that the rebuttable presumption is only applicable when voting rights are the main factor in determining control. This is because there are other means of obtaining control which may need to be considered. Additionally, respondents explained that paragraph 9.5 of the Exposure Draft may be interpreted as requiring an entity to assess whether it has all the elements of control listed in paragraph 9.4B of the Exposure Draft. Respondents suggested that the IASB provides clarity on whether an entity that holds a majority of the voting rights in an investee is still required to consider the elements of control listed in paragraph 9.4B of the Exposure Draft.

(b) *IFRS 10 concepts*—respondents sought clarity on the following:

   (i) paragraphs 9.4D–9.4F of the Exposure Draft refers to 'current ability', but there is no guidance on what 'current ability' entails.

   (ii) the section should include the concept of 'substantive right' in determining if an investor controls an investee.

(c) *guidance*—respondents suggested that more guidance should be provided on the following:

   (i) further guidance from Appendix B of IFRS 10 should be simplified and included in educational material to assist preparers in assessing control, including the determination of control and how it is different from legal ownership.

   (ii) circumstances when a reporting entity may hold the majority of the shares in an investee but due to other factors may not have control over the investee (guidance on when the rebuttable presumption can be overcome).

(d) *disclosure*—respondents suggested that a disclosure requirement is added for entities that have applied the rebuttable presumption.

20. Only one respondent disagreed with the retention of the rebuttable presumption. This respondent explained that the rebuttable presumption affects the usefulness and purpose of financial information by weakening the concept of control.

21. A few respondents disagreed with the exclusion of requirements for investment entities. They explained that there are investment entities that may fall in the scope of the *IFRS for SMEs* Accounting Standard. Respondents suggested that investment

entities should have an accounting policy choice to either consolidate investments in subsidiaries or measure their investments at fair value through profit or loss.

Proposed amendments to the impairment of financial assets in Section 11 *Basic Financial Instruments (to be renamed Financial Instruments)*

22. The IASB proposed to:

(a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*;

(b) require an expected credit loss model (ECL model) for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9 *Financial Instruments*[1]; and

(c) retain the requirements in Section 11 for impairment of equity instruments measured at cost.

Question 4(i) of the ITC

Do you agree with the proposal to introduce an expected credit loss model for *only some* financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Question 4(ii) of the ITC

Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

[1] IFRS 9 includes a simplified approach that requires the loss allowance to be measured at an amount equal to lifetime expected credit losses. The simplified approach reduces the need to track separately increases in credit risk. Therefore, the simplified approach alleviates the practical concerns about using the general approach in IFRS 9 for tracking changes in credit risk to determine whether there has been a significant increase in credit risk.

23. Some respondents agreed with the proposal to introduce an ECL model for only some financial assets. Some noted that the proposal would increase complexity for SMEs that have financial assets other than trade receivables and contract assets, but strikes the right balance considering the costs for SMEs and benefits for users of their financial statements. However, in determining which financial assets should be in the scope of the ECL model:

(a) a few respondents said the IASB should consider whether the financial assets have a financing component and their exposure to credit risk, for example period to maturity, rather than type of financial asset; and

(b) some respondents said the incurred loss model should also be retained for intragroup or related party balances because applying an ECL model to such receivables, which are often one-off in nature, involves a high level of estimation and complexity, with limited information benefits.

24. Most respondents disagreed with the proposal to introduce an ECL model for some financial assets. Most of these respondents said that the incurred loss model should be retained for all financial assets (see paragraph 25). Other respondents were generally divided between:

(a) giving SMEs an accounting policy choice between the simplified ECL model in the Exposure Draft and the incurred loss model, and apply this to all financial assets. These respondents said this would strike a better balance considering the costs for SMEs and benefits for users of their financial statements.

(b) requiring the ECL model in the Exposure Draft to be applied to all financial assets because it provides better information to users of SMEs’ financial statements.

25. Approximately half of the respondents that commented on Question 4 supported retaining the incurred loss model for all financial assets. Many of these respondents noted that the benefits of introducing an ECL model, even with the simplifications

proposed in the Exposure Draft, are unlikely to outweigh the costs of applying the proposed model. Those that held this view said:

(a) the existence of two impairment models for financial assets would lead to complexity and confusion for SMEs and users of their financial statements, and does not meet the IASB's simplicity principle.

(b) generally, entities with complex financial instruments would be outside the scope of the Standard, such as, financial institutions. The types of financial assets measured at amortised cost that are held by SMEs are generally straightforward (short-term and non-interest-bearing financial instruments such as trade receivables, and intragroup and employee loan receivables) and the benefits of applying the ECL model may not outweigh the costs and practical difficulties for these financial assets.

(c) many SMEs do not have the resources or the ability to apply an ECL model properly, which would reduce the usefulness of the information.

(d) the incurred loss model is sufficient to meet the needs of the users of SMEs' financial statements.

(e) the IASB should wait until after the post-implementation review of the impairment requirements in IFRS 9 before considering an ECL model for SMEs because the IASB would then be in a better position to understand the practical issues with the ECL model.

26. Some respondents had suggestions on how to improve or simplify the ECL model in the Exposure Draft if this model is included in the final updated Standard. Suggestions for improvements—each made by a few respondents—included:

(a) providing guidance on the practical expedients that SMEs can apply in measuring expected credit losses (paragraph 11.26E of the Exposure Draft);

(b) clarifying the considerations of SMEs in assessing 'undue cost or effort' in obtaining reasonable and supportable information for measuring expected credit losses (paragraph 11.26B(c) of the Exposure Draft);

(c) providing illustrative examples to help SMEs apply the ECL model;

(d) allowing SMEs to measure expected credit losses using a single loss scenario (or best estimate) rather than a fully probability weighted method; and

(e) introducing the rebuttable presumptions from IFRS 9 that:

(i) the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due; and

(ii) a default does not occur later than when a financial asset is 90 days past due.

Feedback on financial guarantee contracts

27. In addition to the comments on the ECL model, some respondents commented specifically on the proposed requirements for financial guarantee contracts. These respondents noted that it is common for SMEs to issue intragroup financial guarantee contracts at a zero-transaction price. Applying the proposals there would be no entries on 'day 1' but on 'day 2' the SME would have an immediate remeasurement for the recognition of the ECL amount, which would be recognised in profit or loss (a 'day 2 loss'). It was also noted that, applying full IFRS Accounting Standards, the initial recognition of intragroup financial guarantee contracts at a zero-transaction price is often in equity (at fair value) given the intercompany nature of the arrangement. Respondents had the following suggestions:

(a) intragroup guarantees or all financial guarantee contracts should be in the scope of Section 21; or

(b) financial guarantee contracts should only be initially measured at the transaction price if one is charged. If no transaction price is charged, they should be initially measured at fair value.

Proposed new Section 12 *Fair Value Measurement*

28. The IASB proposed to:

    (a) align the definition of fair value with IFRS 13 *Fair Value Measurement*;

    (b) align the guidance on fair value measurement with the principles of the fair value hierarchy set out in IFRS 13;

    (c) include examples within the guidance on fair value measurement that illustrate how to apply the hierarchy; and

    (d) align the disclosure requirements relating to fair value with IFRS 13.

29. The IASB proposed that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12.

Question 5 of the ITC

Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

30. Almost all respondents, who answered Question 5, expressed general support for the proposed new Section 12.

31. Some respondents suggested the IASB provides additional guidance and more illustrative examples to support application of the proposed new Section 12. A few respondents suggested adding such guidance to the appendix to Section 12, whilst others suggested putting it in separate educational material. A few respondents suggested moving all the guidance in the appendix to separate educational material to keep the Standard concise. Suggestions for guidance—each made by one or two respondents—included:

    (a) assessing whether a market is active and identifying transactions that are not orderly, particularly in emerging economies;

    (b) fair value measurement of biological assets and investment properties;

(c) matters such as highest and best use, exit value and market participants;

(d) further examples from IFRS 13: Example 1— Highest and best use (Asset group), Example 11—Decommissioning liability and Example 17—Valuation techniques and inputs; and

(e) assessing whether a fair value measurement results in undue cost or effort.

32. A few respondents said that the IASB should consider further simplifications and reduction of guidance in Section 12, for example replacing the three-level fair value hierarchy with a two-level hierarchy ('quoted price' and 'unquoted price' inputs) or simplifications to the fair value measurement requirements like the UK's Financial Reporting Council proposed amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

33. A few respondents noted that proposed Section 12 does not include all the requirements of IFRS 13 and it may be unclear to SMEs if those requirements would still apply. For example, without specific guidance on liabilities and own equity instruments it may be unclear that the effects of non-performance risk should be included in measuring a liability's fair value.

34. A few respondents said the proposed disclosure requirements in Section 12 are excessive, for example the benefits may not justify the costs of requiring SMEs to disclose information by hierarchy level. Nevertheless a few respondents asked for additional disclosures from IFRS 13, for example, additional information on level 3 inputs and changes in valuation techniques.

Proposed amendments to Section 15 *Investments in Joint Ventures* (to be renamed *Joint Arrangements)*

Definition of joint control and classification of a joint arrangement

35. The IASB proposed to align the definition of joint control with IFRS 11 *Joint Arrangements*, while retaining the three classifications of joint arrangements in

Section 15 (jointly controlled assets, jointly controlled operations and jointly controlled entities).

Question 6(i) of the ITC

Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Definition of joint control

36. Most respondents that provided comments on Question 6(i) supported the alignment of the definition of control with IFRS 11.

37. A few respondents disagreed with the alignment of the definition of joint control with IFRS 11 for the following reasons:

  (a) the existing definition of joint control is generally understood for entities in the scope of the Standard.

  (b) the definition of joint control in IFRS 11 is complex.

  (c) it will be confusing to align the definition of joint control and change the term from 'joint venture' to 'joint arrangement' in line with IFRS 11, but retain the existing categories of 'jointly controlled asset', 'jointly controlled operation' and 'jointly controlled entity' rather than the categories of joint arrangements (joint venture and joint operation) in IFRS 11.

Classification of a joint arrangement

38. Most respondents that provided comments on Question 6(i) supported the retention of the classification and measurement requirements for joint arrangements in Section 15

of the Exposure Draft. Many of these respondents supported this proposal because it simplifies the classification of joint arrangements in the Standard.

39. Some respondents disagreed with the retention of the existing three classifications of joint arrangements in Section 15 of the Exposure Draft. These respondents explained that they supported full alignment with IFRS 11 as the proposed approach is confusing. They provided the following reasons for full alignment with IFRS 11:

    (a) the post-implementation review of IFRS 11 did not find any significant issues and provides evidence that the requirements of IFRS 11 enable an entity to faithfully represent their interests in joint arrangements.

    (b) the IFRS 11 classification would not be costly or difficult to apply for SMEs.

    (c) full alignment with IFRS 11 will reduce unintended consequences of applying different approaches to the definition (aligned with IFRS 11) and classification and measurement (Section 15) of joint arrangements.

40. A few of the respondents that disagreed with the proposal to retain the three classifications of joint arrangements in Section 15 of the Exposure Draft and supported alignment with IFRS 11, suggested that the accounting policy options in the measurement requirements in paragraph 15.9 should be retained as an appropriate application of the alignment approach (simplification and balance of costs and benefits).

Other comments

41. Respondents provided further comments on Section 15 of the Exposure Draft as follows:

    (a) *guidance* — a few respondents suggested that further guidance from Appendix B of IFRS 11 should be simplified and included in the Standard to assist preparers in assessing the legal form and structure of the joint arrangement through the evaluation of the rights and obligations.

(b) *wording*— a few respondents noted that the word 'venturer' has been replaced with the word 'party' in Section 15 of the Exposure Draft. They explained that the word 'party' is wider in scope and may not always be appropriate. They further explained that the proposed terminology may be confusing to the users of the financial statements.

A party to a joint arrangement that does not have joint control

42. The IASB proposed amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Question 6(ii) of the ITC
Do you agree with this proposal to align Section 15 with the requirements of paragraph 23 of IFRS 11? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

43. Most respondents agreed with the proposal to align Section 15 of the Exposure Draft with the requirements of paragraph 23 of IFRS 11 because it will result in faithful representation.

44. A few respondents agreed with this proposal provided the measurement and classification of joint arrangements are fully aligned with IFRS 11.

45. A few respondents disagreed with this proposal. These respondents explained that this proposal may be difficult to apply as an investor without joint control may not know how the investor(s) with joint control classified the joint arrangement.

Proposed amendments to Section 19 *Business Combinations and Goodwill*

46. The IASB proposed to align Section 19 with the acquisition method of accounting in IFRS 3 (2008) *Business Combinations*[2] by, among other changes, adding requirements for an acquisition achieved in stages (step acquisitions).

47. The IASB also proposed to retain the requirements in Section 19 for some aspects of the acquisition method of accounting. For example, the IASB proposed to restrict the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. This proposal means Section 19 would not include the option in IFRS 3 (2008) to measure a non-controlling interest in the acquiree at fair value.

Question 7(i) of the ITC

Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.

48. Almost all the respondents that provided comments on Question 7(i) agreed with introducing accounting requirements for step acquisitions. Many of these respondents said that these requirements will enhance comparability and consistency. Some respondents from the regions of Europe, South America, North America and Asia-Oceania indicated that step acquisitions are relatively uncommon for SMEs. Contrastingly, a few other respondents from Europe and South America regions indicated that step acquisitions are becoming common for SMEs.

[2] IFRS 3 (2008) version, including subsequent amendments to IFRS 3.

49. Most respondents agreed with the proposed requirements for step acquisitions in the Exposure Draft. A few respondents provided the following suggestions to the requirements:

   (a) *simplification*—respondents suggested that a simplification should be allowed for an acquirer to measure its previously held interest at the acquisition date carrying amount instead of remeasurement to fair value.

   (b) *undue cost or effort*—respondents explained that SMEs typically acquire unlisted SMEs and measuring the previously held interest at the acquisition date fair value will require undue cost or effort. These respondents suggested that an undue cost or effort relief is introduced for SMEs to measure the previously held interest at the carrying amount instead of fair value[3].

50. A few respondents observed that any gain arising from a step acquisition does not involve cash flows. These respondents suggested that further research is conducted to ascertain whether the information provided by the step acquisition requirements would meet the needs of users of SMEs' financial statements before introducing the requirements.

Question 7(ii) of the ITC

Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.

51. Most respondents that responded to Question 7(ii) agreed with the proposal to simplify the measurement of non-controlling interests by excluding the option to measure them at fair value. Many of these respondents supported this proposal because this simplification reduces the complexity of the Standard and the costs of measuring non-controlling interests at fair value may outweigh the benefits.

[3] Paragraph 12.8(b) of the *IFRS for SMEs* Accounting Standard provides requirements for equity instruments that are not publicly traded.

52. Some respondents disagreed with this proposal. These respondents suggested that the option to measure non-controlling interests at fair value should be permitted, consistent with IFRS 3. Many of these respondents explained that SMEs can benefit from having the same options that are available in full IFRS Accounting Standards.

Question 7(iii) of the ITC

Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.

53. A few respondents provided the following comments or suggestions on the proposed amendments to Section 19:

(a) *reacquired rights*— respondents disagreed with the exclusion of guidance related to reacquired rights. These respondents explained that there are entities that operate on a franchise model and are in the scope of the Standard.

(b) *guidance*—respondents suggested that further application guidance and examples from IFRS 3 should be simplified and included in Section 19.

(c) *structure*—respondents suggested that Section 19 should be reorganised, rewritten and renumbered (similar to Sections 2 and 23) given the extent of amendments. This will make the Section easier to understand.

Proposed revised Section 23 *Revenue* (to be renamed *Revenue from Contracts with Customers*)

54. The IASB proposed to revise Section 23 to align it with the principles and language used in IFRS 15 *Revenue from Contracts with Customers*, with proposed simplifications to the requirements in IFRS 15.

Question 8(i) of the ITC

Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why?

55. Most respondents who commented on Question 8(i) supported aligning Section 23 with IFRS 15. Most of these respondents agreed that the proposed revised Section 23 was appropriate. Some respondents who agreed that the proposed revised Section 23 was appropriate said the revised Section will improve the revenue recognition requirements for SMEs.

56. All respondents that disagreed with aligning Section 23 with IFRS 15 commented on the cost of implementing the proposed revised Section 23. Many of these respondents said that the costs and efforts for SMEs to apply the proposed revised Section 23 would not be justified by the benefits to users.

57. A few respondents recommended that the IASB should complete its post-implementation review of IFRS 15 before it aligns Section 23 with IFRS 15.

58. Respondents expressed different views about the nature of SMEs' revenue contracts. A few respondents said SMEs' revenue contracts are less complex compared with entities applying full IFRS Accounting Standards. Of the respondents that held this view:

    (a) respondents who supported aligning Section 23 with IFRS 15 said the proposed revised Section 23 will be straightforward for SMEs to apply.

    (b) respondents who disagreed with aligning Section 23 with IFRS 15 said the proposed revised Section 23 would make accounting for revenue complex for SMEs.

A few respondents said that the comprehensive revenue recognition model in the proposed revised Section 23 will benefit SMEs that have more complex revenue contracts.

59. Most respondents who supported aligning Section 23 with IFRS 15 suggested modifications to the proposed revised Section 23. Many of those respondents commented on the proposed simplification to the requirements for principal versus agent. Many respondents who commented on this simplification suggested that the guidance for determining whether an SME is acting as a principal or agent should be the same as in IFRS 15, and not simplified.

60. Some of the respondents who suggested modifications to the proposed revised Section 23 commented on the following proposed simplifications:

(a) *performance obligation terminology*—all respondents who commented on this proposed simplification suggested that the terminology used in the revised Section 23 should be consistent with IFRS 15 (that is, the term 'performance obligation' should be used instead of 'promise').

(b) *warranties and customer options for additional goods or services*—many respondents who commented on these proposed simplifications felt that requiring SMEs to assess the significance of a warranty and the effects of accounting for material rights would involve substantial judgement and introduce complexity, and asked for guidance and illustrative examples to assist SMEs.

(c) *requirements for constraining estimates of variable consideration and criteria for determining whether a promise is satisfied over time*—many respondents who commented on these proposed simplifications suggested that the language used to express the requirements and criteria should be the same as in IFRS 15, and not simplified.

(d) *costs of obtaining a contract*—many respondents who commented on this proposed simplification suggested that instead of an undue cost or effort exemption, SMEs should have an accounting policy choice to recognise costs to obtain a contract that meet certain conditions as either an asset or an expense.

(e) *disclosure requirements*—most respondents who commented on the proposed disclosure requirements suggested that those disclosures are reduced.

61. Some respondents who suggested modifications to the proposed revised Section 23 were of the view that the section's length could be reduced. One accountancy body suggested introducing a screening test that minimises the need for SMEs with simple contracts with customers to make a detailed assessment of the requirements that cover each step of the revenue recognition model in the section (similar to the 'concentration test' in IFRS 3).

62. A few respondents who suggested modifications to the proposed revised Section 23 suggested the IASB consider additional simplifications to the requirements in IFRS 15. Suggestions—each made by one or two respondents—included:

(a) introducing options for SMEs to:

(i) divide a promise to transfer a series of distinct goods or services that are substantially the same, and that have the same pattern of transfer to the customers, into separate promises based on units of time (for example each month, quarter or year);

(ii) divide combined contracts into separate promises and recognise revenue for goods or services at an amount that corresponds with the amounts stipulated in the contact in specified circumstances; and

(iii) recognise costs incurred in fulfilling a contract as an expense when incurred for all contracts in which the amortisation period for the asset that the entity otherwise would have recognised is one year or less (that is, expand the scope of the option in paragraph 23.105 of the proposed revised Section 23); and

(b) allowing SMEs to:

(i) account for contract modifications using any of the three approaches in paragraphs 23.14 and 23.15 of the proposed revised Section 23 if the additional goods or services are immaterial to the existing contract;

(ii) allocate the transaction price to options for additional goods or services, that provide customers with a material right, based on the future price of the additional goods or services, rather than the option's stand-alone selling price;

(iii) use the residual approach to estimate the stand-alone selling price of goods or services that are immaterial to the other goods or services in the contract; and

(iv) treat promises satisfied over time as promises satisfied at a point in time if they are made up of a large number of goods or services that are:

1. transferred over a short period of time; and
2. of a low value.

63. Some respondents who commented on Question 8(i) highlighted the need for application guidance to help SMEs apply the proposed revised Section 23. For example, Mazars said:

> We believe that guidance should be issued to illustrate examples of how to implement the amended revenue principles so that the IFRS for SMEs [Accounting Standard] can stand alone and will not need to be utilised with reference to IFRS 15.

Question 8(ii) of the ITC
Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

64. Most respondents who commented agreed that the guidance in the proposed revised Section 23 on determining whether goods or services are distinct is appropriate and adequate for SMEs to make this assessment. Of the respondents that commented, some suggested changes to the guidance. Many of these suggestions were for additional guidance by way of additional or enhanced examples.

65. A few respondents suggested the IASB consider further simplifications to reduce the instances when SMEs are required to determine whether goods or services are distinct. Suggestions—each made by one or two respondents—included:

    (a) not requiring SMEs to assess whether goods or services promised to a customer are distinct if they are immaterial within the context of the contract; and

    (b) introducing an option for SMEs to account for shipping and delivery activities that occur after a customer has obtained control of a good as an activity to fulfil the promise to transfer the good, instead of assessing whether the activities are distinct.

66. A few respondents who commented on Question 8(ii) disagreed with the IASB's proposed simplifications to the requirements of paragraphs 27–29 of IFRS 15 and said:

    (a) the simplifications do not make it easier for SMEs to understand how to make the assessment of whether a good or service is distinct.

    (b) the simplifications do not help users of the financial statements.

Proposed amendments to Section 28 *Employee Benefits*

67. Paragraph 28.19 of the Standard permits an entity to make simplifications in measuring its defined benefit obligation with respect to current employees. Feedback on the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* (Request for Information):

(a) identified challenges when applying paragraph 28.19, resulting in diversity of application; and

(b) provided evidence that only a few entities apply paragraph 28.19.

68. Consequently, the IASB proposed to delete paragraph 28.19 of the Standard.

69. The IASB included an alternative proposal to clarify how to apply the simplifications in paragraph 28.19 of the Standard. This alternative approach was set out in Question 9 of the ITC.

Question 9(i) of the ITC
Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19?

70. Respondents had mixed views on whether to delete paragraph 28.19 of the Standard.

71. Many respondents (a small majority) who commented disagreed with the IASB's proposal to delete paragraph 28.19. Most of those respondents who disagreed did not express a view about whether SMEs apply the simplifications permitted by paragraph 28.19. Of those respondents that expressed a view, most disagreed that only a few SMEs apply paragraph 28.19. The jurisdictions where SMEs apply paragraph 28.19 mentioned by respondents were East Africa, Kenya and Saudi Arabia.

72. A few respondents disagreed with the IASB's proposal to delete paragraph 28.19 but agreed that only a few entities apply the simplifications permitted by the paragraph. The Group of Latin American Accounting Standard Setters (GLASS) said:

> GLASS agrees that only a few entities apply what is established in paragraph 28.19; nevertheless, we do not agree with the proposal to eliminate such paragraph, since it represents an important simplification for the measurements that SMEs must make, and its elimination would not significantly improve the quality of the information issued by such

entities, not to mention the fact that it elimination would create an accounting change for the entities that currently use this simplification.

73. Many respondents (a large minority) who commented agreed with the IASB's proposal to delete paragraph 28.19. Some of these respondents also agreed that only a few entities apply the simplifications permitted by paragraph 28.19. Those respondents who did not comment on whether entities apply paragraph 28.19 (but agreed with the IASB's proposal to delete the paragraph) gave different reasons for their views. Some of these respondents:

   (a) said the simplifications permitted by paragraph 28.19 are not available in their local GAAP (Sweden, UK and Ireland).

   (b) said defined benefit plans are not common among SMEs in their jurisdiction (Brazil, Malaysia and Sri Lanka).

   (c) supported SMEs being required to use the projected unit credit method to measure their defined benefit obligation.

Question 9(ii) of the ITC

If you disagree with the proposal in 9(i), do you agree that this alternative approach [in Question 9 of the ITC] clarifies paragraph 28.19?

74. Most respondents who disagreed with the IASB's proposal to delete paragraph 28.19 of the Standard agreed that the alternative approach in Question 9 of the ITC clarifies the paragraph. Most respondents that disagreed with the alternative approach suggested the IASB considers not requiring an SME to discount a defined benefit obligation if the SME applies the simplifications permitted by paragraph 28.19. The respondents that made this suggestion were based in jurisdictions where SMEs apply paragraph 28.19 (see paragraph 71).

Proposed transition requirements

75. The IASB proposed limited relief from retrospective application for those proposed amendments to the Standard for which the IASB thought the costs of retrospective application would exceed the benefits.

Question 10 of the ITC

Do you agree with the proposed transition requirements for the amendments to the *IFRS for SMEs* Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

76. Most respondents who commented agreed with the proposed transition requirements for the amendments to the Standard. Of those who agreed, many commented that the requirements would reduce the implementation costs for SMEs on transition.

77. Some respondents who commented disagreed with the proposed transition requirements for the amendments to the Standard. Of those who disagreed:

    (a) many said that having exceptions to the default approach to applying changes retrospectively was confusing; and

    (b) almost all suggested alternative transition requirements.

78. Most respondents who suggested alternative transition requirements suggested that SMEs be permitted to apply all the proposed amendments to the Standard prospectively. Many respondents who made this suggestion:

    (a) were national standard-setters, most of which operate in jurisdictions where the Standard is required or permitted; and

    (b) also provided suggestions about how the IASB could provide additional relief from retrospective application. Suggestions included introducing:

        (i) an undue cost or effort exemption; or

(ii) an option to recognise the cumulative effect of initially applying an amendment in the current period (similar to the ‘cumulative catch-up’ approach in IFRS 9 and IFRS 15).

79. A few respondents suggested the IASB clarifies that early application is permitted provided that an entity applies all the proposed amendments to the Standard at the same time.

Other proposed amendments

Question 11 of the ITC
Do you have any comments on other proposed amendments in the Exposure Draft?

80. Some respondents had comments on other proposed amendments. The main topics raised include:

(a) *reconciliation for liabilities arising from financing activities*—some respondents said the proposed new paragraph 7.19A would be onerous for SMEs and only provide limited benefits for users. A few of these respondents said the proposed reconciliation does not provide additional information about an entity’s cash flows and liquidity, noting that most SMEs do not have complex financial liabilities with non-cash changes.

(b) *borrowing costs*—some respondents said the IASB should consider introducing either a requirement or an accounting policy option for SMEs to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

(c) *bearer plants*—a few respondents either raised application issues or expressed concern that the costs of requiring bearer plants to be measured separately from the produce might not outweigh the benefits, even with the undue cost or effort exemption on initial recognition.

(d) *intangible assets*—a few respondents suggested the IASB should consider reviewing the definitions of intangible assets, and of research and development, to reflect the modern economy. A few other respondents suggested the IASB should consider adding requirements or guidance on how to recognise, measure and disclose cryptocurrencies and related assets.

(e) *advance consideration in a foreign currency*—a few respondents asked for additional guidance to support proposed paragraph 30.8A, including on determining when an item is monetary or non-monetary.

(f) *uncertainty over income tax treatments*—a few respondents suggested wording changes to paragraphs 29.16A and 29.34C to closely align with IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments*.

(g) *recent amendments to full IFRS Accounting Standards*—a few respondents said the IASB should consider incorporating the recent amendments made to IAS 1 *Presentation of Financial Statements* in *Classification of Liabilities as Current or Non-Current* (January 2020) and *Non-current Liabilities with Covenants* (October 2022).

(h) *title of the Standard*—a few respondents did not support the insertion of 'Accounting' into '*IFRS for SMEs* Accounting Standard', noting that the title now refers to both an accounting standard and a financial reporting standard.

(i) *use of appendices in the Standard*—a few respondents suggested that the non-mandatory guidance and illustrative examples could be moved from the appendices to separate education material.

(j) *sustainability reporting*—a few respondents noted there is an increasing demand for sustainability reporting by SMEs and that the IASB should start to consider the connectivity of financial and sustainability reporting for SMEs.

Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard

81. The proposed amendments to the requirements in the *IFRS for SMEs* Accounting Standard included the addition of new paragraphs and the deletion of existing paragraphs. Two approaches were taken to update the paragraph numbers in each section of Exposure Draft:

    (a) numbering new paragraphs in continuation from the previous paragraph, and retaining paragraph numbers for those deleted paragraphs (for example, Section 19); and

    (b) as an alternative, a section was revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2).

Question 15 of the ITC

What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

82. Most respondents agreed with the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft. Some comments—each made by a few respondents— included:

    (a) when a section has not been significantly rewritten, renumbering ensures the section is readable and easier to follow; and

    (b) retaining the numbering of the existing paragraphs:

        (i) enables stakeholders to better track changes to the section and see new requirements; and

        (ii) means that existing references to the Standard, for example in databases, do not need to be updated.

83. A few respondents that supported the approach taken in the Exposure Draft thought that Section 19 should be renumbered, without a placeholder for deleted paragraphs, because of the extent of changes to that section. Nevertheless, a similar number of respondents stated that Section 19 should not be renumbered (i.e. they agreed with the approach taken for Section 19 in the Exposure Draft).

84. Some respondents did not express support for the approach taken in the Exposure Draft. These respondents had the following comments:

   (a) a few respondents said the third edition of the Standard should be renumbered to show only requirements that would still be applicable for readability and understandability, rather than having placeholders for the deleted paragraph. Nevertheless, most of these respondents noted it would be helpful to have a version of the Standard for reference that shows a markup of the changes made to the previous edition of the Standard.

   (b) a few respondents did not agree with renumbering any sections of the Standard. Most of these respondents said they preferred such an approach as it would be similar to amendments to full IFRS Accounting Standards.

   (c) a few respondents said whichever approach is applied should be applied consistently.

85. Based on the responses received, the staff think that a few respondents appear to have interpreted Question 15 as asking which of the two approaches in paragraph 81(a) and (b) they preferred rather than whether they agreed with the mixed approach taken in the Exposure Draft, where the approach used for a section depended on the extent of changes.

Appendix—Analysis of respondents

Diagram 1—Analysis of respondents by geographical distribution

	Respondents	
Geographical Region	**Number**	**Percentage**
Africa	18	26%
Asia and Oceania	18	26%
Americas	15	21%
Europe	11	16%
Global	8	11%
Total	**70**	**100%**

Diagram 2—Analysis of respondents by type

	Respondents	
Respondent Type	**Number**	**Percentage**
Accountancy body	28	40%
Standard-setting body	14	20%
Auditor/Accounting firm	11	16%
Individual	8	11%
Preparer/ Preparer representative body	6	9%
Academic Institution	2	3%
Consulting	1	1%
Total	**70**	**100%**

Table 1—Number of respondents commenting on Questions 1–11 and 15

Question	Number of Respondents
Q1(i)—Listing entities that often meet the criterion in paragraph 1.3(b) of the Standard Q1(ii)—Clarification of the characteristics of an entity with public accountability	61/70 respondents
Q2(i)—Revised Section 2 *Concepts and Pervasive Principles* Q2(ii)—Retaining the definition of an asset and of a liability in Section 18 and Section 21	50/70 respondents 54/70 respondents
Q3—Definition of control in Section 9	51/70 respondents
Q4(i)—Introduction of an expected credit loss model Q4(ii)—Scope of the expected credit loss model	58/70 respondents
Q5—New Section 12 *Fair Value Measurement*	55/70 respondents
Q6(i)—Definition of joint control and classification of a joint arrangement Q6(ii)—A party to a joint arrangement that does not have joint control	50/70 respondents 44/70 respondents
Q7(i)—Accounting for step acquisitions Q7(ii)—Measuring non-controlling interests Q7(ii)—Proposed amendments to Section 19 *Business Combinations and Goodwill*	52/70 respondents 51/70 respondents 18/70 respondents
Q8(i)—Revised Section 23 *Revenue* Q8(ii)—Determining whether a good or service is distinct	54/70 respondents 44/70 respondents

Question	Number of Respondents
Q9(i)—Removal of paragraph 28.19 of the Standard Q9(ii)—Alternative proposal to clarify paragraph 28.19 of the Standard	48/70 respondents 25/70 respondents
Q10—Transition	50/70 respondents
Q11—Other proposed amendments	n/a
Q15—Updating the paragraph numbers of the Standard	51/70 respondents